RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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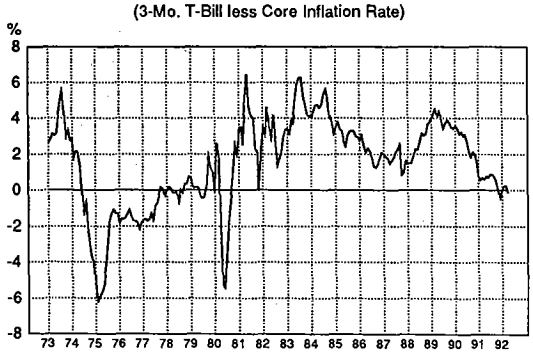
May 13, 1992 **LETTER 1095**

May 1 DJIA 3336.09; PTI 3463; A-D Ratio -10.21
May 8 DJIA 3369.41; PTI 3484; A-D Ratio -9.71
Dow Yield: 2.77%; Dow Price/Earnings: 55.1
Dow 200-day MA: 3115; Dow 30-day MA: 3295
Dow Times Book Value: 2.53; PTI 89-day MA: 3457
Percentage of Undervalued Blue-chips: 9%

SQUEEZE: This chart (courtesy of *Merrill Lynch* research) explains a lot of what's happening today. What we see here is the real return (real meaning inflation-adjusted) on the safest short-term money instrument, the T-bill. And the return is -- zero. The Fed-driven collapse in short rates is knocking the savings-income of Americans into the basement and driving them into the stock market (where they hope they'll make up for their loss in interest income). Will it work? Does the public know what it's doing? We'll see.

U.S. Real Short-Term Interest Rates
(3-Mo. T-Bill less Core Inflation Rate)



THE PICTURE: Last week saw new record highs in the Dow, the D-J 65 Stock Average, the S&P Transports, the S&P Financials, the London Financial Times 30 ("Footsie"), and Hong Kong's Hang Seng Index. Face it, that's impressive, and the bulls have to like it.

How about the bears? Bearish market students who have been watching the attrition in breadth (particularly on the NASDAQ) that is taking place here in 1992 are asking themselves, "Is this it? Are we watching the formation of a massive top, a top which will finish off the greatest bull market in US history?" Question: Are the bears whistling in the dark? We'll see, and probably shortly.

The following is always an important consideration -- just as the bull wants to take the market up with the fewest number of investors aboard, so the bear wants to take the market down with the greatest number of investors still aboard.

How do they do it? How do they get away with it? The bull uses pessimism. The word goes out that business is rotten, corporate earnings are in the tank, dividends are being cut, there's no hope of anything better ahead -- and all the while stocks continue to push higher. Stocks rise because the smart money knows what's going on. Smart money knows that what the public is reading and hearing is history. Smart money knows that the stock market has already discounted all the bad news. And when the worst is fully discounted by the market, stocks start to rise.

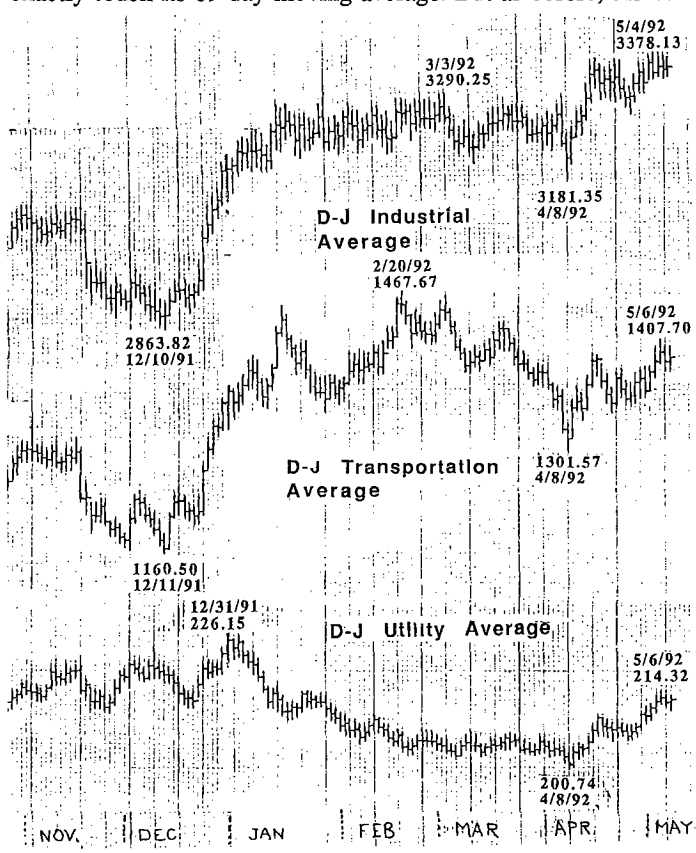
The bear -- he tricks us with optimism. You can read it in the newspapers or hear it on TV every day -- business is getting better and better, corporate earnings are heading up, GDP is up, dividends are being increased, the Fed is easing, stocks are a screaming buy. The only problem is that the smart money is selling, and stock prices are eroding. Oh sure, there are intermittent rallies, a hot stock hits new highs, the Dow surges, but under the cover of good news and happy tidings, the mass of stocks is sinking. That's how bear markets work. So stockholders hang onto their stocks, ever certain that news makes the trend. In a bear market, the better the news, the better the opportunity for the smart money to exit the market at advantageous prices.

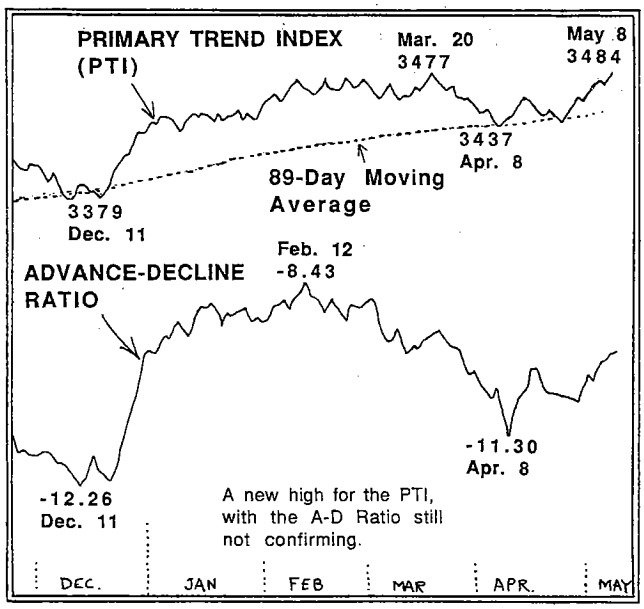
So in the light of the above, we have to ask ourselves, "Could this be it? Could this be the start of a major bear market?" And the Russell non-answer is, "Unfortunately, at this point there's absolutely no way of knowing. If I could know for certain, I'd be the richest man on the planet."

I want to repeat again that the market was last confirmed as bullish. For this reason, we must continue to give the bull every benefit of the doubt. In other words, we can worry and fret, we can search for cracks and chinks in the market structure -- but if the trend is really turning down, we need proof. So far, there is no proof.

However, we're not completely in the dark. In the last Letter, I listed the important preceding lows for the Averages. If this market is to run into troubles, then the first element of proof would be **BOTH** D-J Averages violating their April lows. Those lows were **3181.35** for the D-J Industrials and **1301.57** for the D-J Transports. But so far, the discussion has proved to be academic -- neither Average has moved anywhere near the April lows.

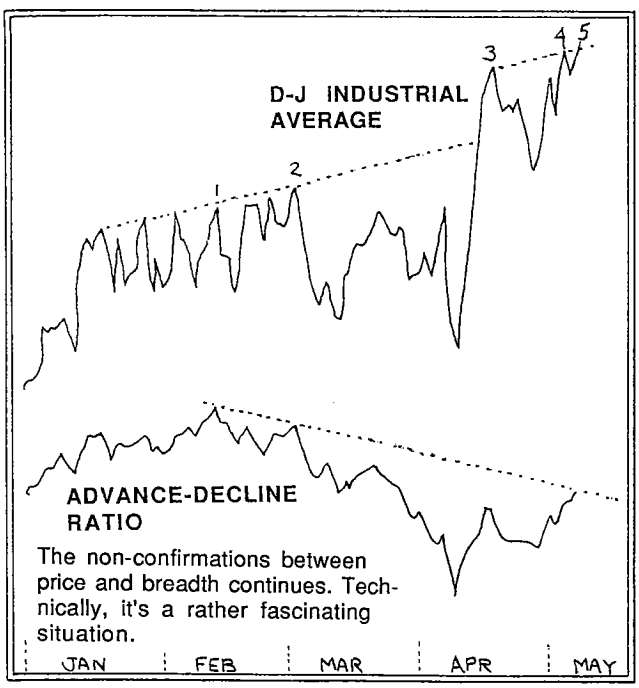
The second place that I am watching is my own Primary Trend Index (PTI). The PTI went through its act again, slipping down to exactly touch its 89-day moving average. But as before, the bull





forces took charge (see the page 2 chart). The PTI rallied off its moving average and on May 6 the PTI rose to a new record high. So as matters stand now, the PTI continues very definitely in the bullish mode.

No market picture is perfect, and the problem with this market centers on breadth. As illustrated here, the Dow keeps making new highs while the advance-decline ratio continues to lag. How long this can go on is anyone's guess, but history tells us this -- the longer the divergence, the greater the technical vulnerability of the market, and the greater the chance of trouble ahead.



Among bearish market technicians the talk is that the so-called "internal top" for the NYSE is in place. What is the internal top? One definition is that it is the point at which the greatest number of NYSE stocks hit new highs. My five-day moving average of new highs struck its peak on December 31 at 255. A second definition is that the internal top occurs at the point where the advance-decline ratio records its peak. From that standpoint (see page 2 chart) the internal top was struck on February 12 at -8.43 on the A-D ratio.

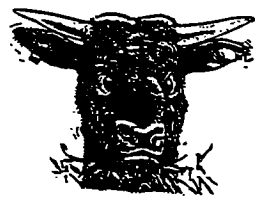
Of course, if this market turns so powerful that the Averages make new highs together with a new high on the A-D ratio and the 5-day moving average of new highs betters 255 -- then we would get an extraordinary wipe out of the old internal top, and the market would enjoy a new lease on life (at least from the technical standpoint).

I won't even bother with the overvaluation aspects of this market. The percentage of undervalued blue chips has dropped to 9% (only 1% from the lowest level in history), the yield on the Dow is a minuscule 2.77% and the Dow is selling at a whopping 55 times earnings.

The public is in this market in a big way, the newspapers are filled with stories of an improving economy, the talk of market overvaluation has all but subsided and brokerage house analysts are talking about higher prices in the period ahead.

But remember what I said in January -- **1992 IS FATED TO BE THE YEAR OF SURPRISES.** Main surprises so far -- the Rodney King jury verdict, the burning of South-Central LA, and the rise of H. Ross Perot. But believe me, as far as surprises go, this is just the beginning.

INVESTMENT POSITION: For all the reasons listed on page 1, the bull remains in the box.



I'll admit it -- at today's valuations I can't get excited about the US market. However, I have been talking about the Hong Kong market. The Hong Kong market is selling at about 12 times earnings, far less than the P/E of the US market. Furthermore, as I outlined in recent Letters, Hong Kong is the doorway to China, and China contains roughly a quarter of the people on the planet Earth.

There's always worry about the future China, but the situation is changing fast -- towards capitalism. Said 87-year old revered leader Deng Xiaoping recently, "We must liberalize still further. All of coastal China south of the Yangtze must become one great free economic zone. More inducements to foreign investments must be offered. Only thus can China with its billion-plus population become prosperous and a world power." China's leaders were frightened by the collapse of the Soviet empire and they don't intend to follow the same path.

Hong Kong is a booming region; furthermore, it's the gateway to China. Sitting next to Hong Kong is China's Quangdong Province, the fastest growing region in the world. The Hong Kong exchange offers some interesting stocks. Here are some I like and bought: China Light & Power (CHLWY), Hang Seng Bank (HNGSY), Hong Kong Electric (HONGY), Hong Kong Telecommunications. All are available in ADRs except Hong Kong Tel. which is listed on the NYSE (HKT).

CHANGE: If there's to be trouble on Wall Street, it is entirely possible that the trouble will not come from the business area -- it will come right out of Washington. Could even the bears be looking in the wrong direction? It's happened before.

The fact is that the massive, unconscionable federal budget deficits are beginning to tear the nation apart. Washington is in a state of paralysis, Congressmen are quitting, US living standards are sinking, the dollar is bouncing around its lows -- and it's finally dawning on the American people that something is terribly wrong.

Said Sen. John Danforth (R) of Missouri, "I have never seen more senators express discontent with their jobs." He added that Congress has failed on a vital issue, the budget deficit. "Deep down in our hearts we know that we have bankrupted America and that we have given our children a legacy of bankruptcy."

Warren Rudman (R) of New Hampshire announced that he is quitting, and he was interviewed by *Newsweek* (April 6). Asked why he wanted out, Rudman answered, "I just got totally frustrated

with the pace around here the last couple of years. We are really doing less and less and taking more and more time to do it. And I am particularly frustrated about the cost to the country of the deficit, which is really destroying us. We're going to be close in the next few years to probably having 5% to 6% of the budget for what we traditionally call government. We're heading towards 60-65% entitlement programs, 13-14% defense, and 17% interest on the federal debt. If you want to do things for education and for health research, and for law enforcement, there's no money . . . It's time to tell the truth, and if you get defeated while doing it, well, it will be worth doing it. At least you do something good for the country."

At a later conference Rudman said, "How will we feel in the year 2000, those of us who were in the Senate in the 1980s and 1990s, as we watch the evening news reports of leaders of foreign governments dictating to the leadership of America the terms and conditions upon which they will loan us money to support our past profligacy?"

And now, along comes Ross Perot, the man with a history of solving problems and getting things done. Perot will almost surely be running for president. He's mad as hell, and he doesn't think the country wants to take it any more. Said Perot, "We've spent $400 billion more than we've taken in and we don't have utopia. It would be one thing if we had the perfect country, perfect cities, perfect schools, no crime, the world's greatest health care system, but as you can plainly see, we don't."

At any rate, it looks like this is the year that Congress will turn to the Constitution as a replacement for politician courage. This is the year when Congress will pass the balanced budget amendment. Of course, the amendment then has to be ratified by at least 38 of the 50 states. That process could occur quickly or it could take years.

But here's my worry -- we've spent it. The nation is spent up. At this point I don't have any brilliant answers for our financial problems. Twenty years ago, even fifteen years ago, I thought I had the answer. Balance the budget -- absolutely balance the budget no matter the pain. At this point, however, I doubt the nation would take the pain.

Let me introduce a few statistics. Non-discretionary spending by the government (health, Social Security; veterans, agriculture, etc.) is up 14% over last year. Discretionary spending (energy, space, natural resources, int. affairs, justice, etc.) is up 9% over a year ago. Over the last four years: federal spending on domestic programs has surged 24.5% after adjusting for inflation. If present trends continue, the Medicare program for the elderly will climb from the current $128 billion to $301 billion in the year 2000. The Medicaid program for the poor will climb from the present $68 billion to $180 billion in the year 2000. And if current trends continue, the federal deficit will reach $10 trillion by the end of the decade.

I believe that it's critical for subscribers to fully understand what is going on, and that entails understanding that the US is now living on deficits of over $8 billion a week. Whatever prosperity we are now enjoying is built on massive deficit spending, which means that we are borrowing well over $400 billion a year just to sustain a declining standard of living.

But here's the crux of the problem. The US in all areas -- governmental, corporate, private -- is carrying a total of $15 trillion in debt. At average interest rates of 6%, you're talking $900 billion a year in interest to carry these debts. You can not deflate and survive with that kind of debt overhang. So the situation produces a syndrome which I call "INFLATE OR DIE" (for die substitute deflation).

As matters now stand, if we cut back significantly on federal spending the nation will sink into a vicious depression. But if we just stand still the debts will continue to increase and compound. If we inflate (as the politicians want us to do), our buying power, the buying power of the dollar will continue to erode. All the above are not a matter of whether, they're not a matter of IF, they're a matter of timing. One of the above MUST occur.

A few weeks ago Speaker of the House Foley predicted that Congress would pass a balanced budget amendment this year, and last week House Majority Leader Gephardt predicted the same. Great, that would get Congress off the hook. Congressmen could say, "Hey, not us, we didn't cause the PAIN, we simply did what the balanced budget amendment dictated. We gave the American people what they wanted."

Would a balanced budget cause pain? At this stage of the game, **it would cause pain you would not believe.** The best example of what is entailed is contained in the following extraordinary column which I'm reprinting in full from the *Orlando Sentinel*. Read it, and you tell me how we are going to balance the budget. So yep, prepare for another surprise.

By J. CRAIG CRAWFORD
Orlando Sentinel

WASHINGTON — Get out your calculators. We're going to balance the federal budget.

Not a single presidential candidate has offered a plan to completely wipe out the U.S. government's red ink.

Sure, President Bush recently proposed scrapping $4 billion in pork projects. But that is only 1 percent of the cutting it would take to balance the budget.

So let's do it ourselves.

First, you will need a copy of the detailed federal document that lists suggested budget cuts and tax changes.

It's called "Reducing the Deficit: Spending and Revenue Options," published by the Congressional Budget Office. You can order one free copy by calling (202) 226-2809 or writing to CBO Publications, House Annex 2, Second and D St. S.W., Washington, DC 20515.

While you're waiting for the mail, let's get started.

Next year's shortfall between what the government takes in and what it spends is expected to total about $362 billion. That's how much we've got to save.

Brace yourself. This will hurt. Balancing the budget means that nearly everyone must jump off the federal gravy train.

Here are budget cuts and tax changes in the CBO document that save $362 billion next year:

Budget cuts: $187.2 billion saved.

- $110.5 billion (pages 18-101): Cut defense budget by about one-third, including 110,000 layoffs of active-duty military personnel and elimination of new projects such as the "Star Wars" anti-missile defense system and the B-2 Stealth bomber.
- $11.0 billion (pages 106-125): Scrap the space station, the super-colliding superconducter, the Superfund toxic-waste cleanup program and other scientific projects.
- $3.7 billion (pages 138-139): Abolish aid for mass transit and airport construction.
- $4.8 billion (pages 141-147): Eliminate community aid programs such as loans to small business and grants for urban development
- $1.1 billion (page 159): Eliminate federal funding for arts and humanities.
- $5.2 billion (pages 163-172): Trim low-income housing assistance.
- $1.0 billion (pages 177-178): Reduce funding for the war on drugs and eliminate the Legal Services Corp.
- $2.8 billion (pages 198-212): Eliminate or trim most price-support payments for tobacco, dairy and other farming products.
- $5.8 billion (pages 223-233): Trim student loans and other education programs.
- $16.6 billion (pages 234-254): Cut health research and Medicare; increase premiums and deductibles for Medicare supplementary insurance.
- $2.4 billion (pages 259-270): Cut income-support programs such as food stamps and Aid to Families with Dependent Children.
- $18.8 billion (pages 271-278): Trim Social Security benefits, in part by reducing cost-of-living adjustments.
- $3.5 billion (pages 280-283): Cut veterans' benefits, such as ending care for disabilities unrelated to military duties.

Tax changes: $174.8 billion saved.

- $31.0 billion (page 294): Eliminate home mortgage interest deductions.
- $16.2 billion (page 297): Eliminate deductions for state and local taxes.
- $2.7 billion (page 299): Eliminate deductions for charitable giving.
- $26.8 billion (page 301): Limit itemized tax deductions.
- $98.1 billion (pages 287 and 340): Raise tax rate on incomes above $75,000 from 31 percent to 38 percent and raise energy taxes, such as adding 12 cents a gallon for gasoline.

NOTES & QUOTES: In last week's *LA Times* poll, 75% of those polled opined that the cause of the riots was "society." Yeah, right, but I wonder, what ever happened to individual responsibility? Individual what--?

* *

You heard it here first. Perot's strength lies across the sunbelt: Texas, New Mexico, Arizona, California, Florida, Georgia, Virginia, North Carolina. Neither Bush nor Clinton can take the election if they lose Texas and California. Perot is making a big splash on TV; viewers love him. Note that Perot attacks Bush and the Republicans, while he leaves the Dems alone. And the word is that Clinton is un-electable. Here's the way I see it: Perot is shooting to nudge Clinton out and become the Democratic candidate. How will they get rid of Clinton? The "boys" will talk to Clinton, and tell him that "for the good of the party, etc." The rumored "sure win" ticket for the Dems -- H. Ross Perot and Colin Powell.

If Ross Perot makes it to the presidency, a lot of cartoonists are going to be very happy. They haven't had a face like this in decades.

* *

April 29, 1992 -- would you believe? S&P placed the state of California on negative "credit watch." Also on credit watch -- state agency and authority debt insured by the state. California is currently rated AA, down from AAA. An A rating would put the Golden State on a par with NY.

* *

Last week I got a call from the Operations Manager, Income & Excise Div., state of Alaska. He informed me that I was WRONG in a previous letter when I wrote that Alaska was a high tax state. The fact is that Alaska has NO income tax, NO property tax, NO taxes on individuals. That was news to me, but here it is -- right from the horse's mouth. So if you want a tax free life in a state with no traffic problems and lots of scenery, you know where to head -- for Alaska.

* *

The following interesting observations are from Leonard Silk's column in the April 24 *NY Times:* "The budget deficit remains the hidden issue of the 1992 campaign because of the political dangers to candidates of proposing solutions, whether by raising taxes or cutting entitlement programs like Social Security and Medicare. If the deficit issue goes unaddressed, the United States will continue to be frustrated in attacking domestic problems and meeting its international commitments.

"Weak in wallet, the US cannot play its role as world leader or even effective partner. And, in an interdependent world, the US cannot retreat to its home base without aggravating its economic problems. The day of reckoning has arrived, but not yet in American politics."

Russell comment: It's interesting that the leading financial commentators are finally beginning to see the picture and take the budget deficits seriously (after ignoring them for years). The American public is also now well aware of the dangers of the careening federal debt. Next in line for awareness will be the politicians (who are being pressured by the public). As to the implications, see the section of this Letter entitled "Revolt."

* *

Congress is using the defense budget as a make-work program. The much-talked about defense cuts are not taking place. Just the opposite is occurring. A House Subcommittee has restored $2 billion in next year's budget for the Seawolf submarine, an expensive weapon that has no use in the post-Cold War world. The B-2 bomber, designed to penetrate Soviet defenses, is showing new life, and they are talking about building 20 more. And on and on. Congressmen are afraid of defense cutbacks. It hurts employment in their districts.

* *

This is the chart that is putting the squeeze on all of Europe (courtesy of Ed Hyman's *ISI*). It's the German Consumers' Price Index. At almost 5%, the German CPI is considered intolerable, and the Bundesbank is answering with high interest rates. Since the major European currencies are tied to the German mark, the pressure of German rates are pressuring European economies. When a few weeks ago the US tried to pressure German authorities to lower their rates, the Bundesbank practically laughed in the face of the Americans.

* *

As subscribers know, I have repeatedly recommended *Investor's Business Daily,* the "technical newspaper" with the great charts and tables. The story behind the paper is fascinating. William O'Neill, the publisher, has been nursing this baby along ever since 1984. The paper has consistently lost money (some say it lost $1 million a month for years). Circulation is now up to 155,000, and O'Neill says it will break even at 235,000. Of course, O'Neill is competing directly with the *Wall Street Journal,* which I have said has missed out on the whole field of technical analysis. Says O'Neill, "We'll ultimately have a circulation of 500,000 to 1 million. As for the *WSJ,* O'Neill predicts a fall from 1.8 million now to around 1 to 1.5 million.

Last week O'Neill inaugurated his New USA Fund, and the fund has already brought in a whopping $170 million. The mutual fund will be managed by O'Neill's protege, 32-year old David Ryan. A key to hoped-for success of the new mutual fund will be O'Neill's huge data base for stock picking. O'Neill wants to know all he can about a stock's trading action (rather than earnings). O'Neill uses relative strength, upside and downside volume, group strength, etc.

O'Neill had another fund back in the '60s, the ill-fated O'Neill Fund. The fund did extremely well during the bull market of the '60s, but when the market caved in during '68 and '69 so did the fund. In 1975 O'Neill sold the fund, but he says that he's learned a lot during the years since. For this reason, I will be most interested to see how the New USA Fund will fare. O'Neill and Ryan expect to keep the new fund at least 50% invested in stocks at all times.

Personally, I find the timing for bringing out a new mutual fund rather interesting. On top of that, Wall Street Week's Louis Rukeyser has just brought out a new market letter. Both signs of a major top? We'll see.

* *

What are the world's best selling magazines? They are the fabulously popular Japanese comic books, called *mahnga.* These are read by Japanese in all walks of life, and some like "Youths Jump" and "Young Champions" are sold at the rate of 6 million copies per week. These illustrated novels deal with every type of subject from mystery to business to love to sports. The extraordinary part of the picture is that in Japan everybody reads *mahnga* from top business executives to waiters and busboys.

* *

I receive anywhere from five to fifteen letters every day from subscribers or readers or friends. Obviously, I can't answer them all, but I do read them all -- and carefully. I particularly like letters

from old-timers, people who have lived a long time, people who have seen a lot and who are simply survivors.

Here's a letter I received last week from John W.G. of Asheville, N.C. "Dear Mr. Russell, I see your publication and enjoy it at age 87, most particularly your references to years ago. Seventy-five years ago a $5,000-a-year man was considered successful, being able to have a brownstone in NYC, a maid, provide for his children and save money. My parents would point out those on our block who had reached this plateau.

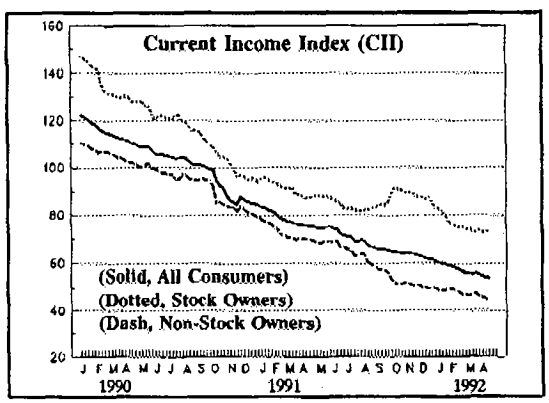
"When I finished college in '25 I got a fine job at $67 a week. It was considered a fortune for a young man to be so lucky and with prospects. I held my job through the depression, accepting a 40% salary cut gladly. In 21 years of retirement, inflation has devastated me. At my present income and purchasing power my father was able to provide a house in NYC, with four in help, private school for three children and save money. Low interest rates last year reduced my income one-third from the previous year, and so far this year the loss amounts to 40%.

"My wife and I at our age of 89 and 87 will not see the 21st century and its economic agony and mob violence when the catastrophic debt pulverizes all -- even the wealthy rich and the excessively rich. Our stupid electorate doesn't comprehend that a billion dollars a day deficit and a billion dollars a day interest on the federal debt will destroy what was once the world's greatest economy. Thank you for the pleasure you have given me. Cordially, J.W.G."

I have reproduced this letter in its entirety, because I think it gives us a good idea of what an awful lot of Americans are going through, what they are thinking and what they are feeling. It isn't pretty, but it's happening. And the pain and anger is increasing year by year.

* *

Sindlinger & Co. thinks it has put its finger on what's wrong in the economy. "The consumer is strapped." Says Sindlinger, after his latest interview of 5,000 US families, "The new 38-year low in the Current Income Index (CII) reflects survey responses that show the consumer to be crippled. Among all households surveyed in the latest week, only 15.1% indicated that income was up from six months ago, the lowest reading ever; 64.5% indicated that income was down, the highest reading ever. These percentages cannot get much worse. As best we can estimate, these levels are in line with the environment of the Great Depression. To put the current structural change in perspective with recent recessions, the prior high reading we had on income being down was 56.1% at the depths of the 1980 recession." (The accompanying chart is from the latest Sindlinger report.)



Russell comment: The current low short-term interest rates that the Fed has manipulated may have saved the banks but they are killing the consumer.

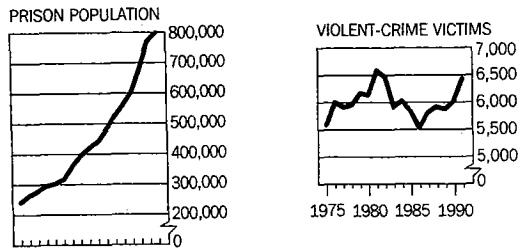
* *

The Fed can manipulate the short rates, but not the long rates. Last week the rate on the bellwether long T-bond moved well above 8% to a new high for the year. I said months ago that the bond market is the new "policeman of the economy." What do the bonds see that they don't like? (1) The federal deficits are causing the Treasury to flood the market with new issues. (2) The Japanese have cut way back on their buying of US debt, and they may even become sellers. (3) With the Fed priming the monetary pumps prior to election, the bond market fears inflation in our future. (4) With the giant rise in the national debt, the bond market fears that the debt will be increasingly monetized, destroying what's left of the dollar.

* *

Well, I goofed. The number for the big Investment Seminars get-together in San Francisco is (800) 226-0323. As I said in the last Letter, this is the seminar that is not to be missed.

How's this for growth? This chart traces the US prison population from 1975 through to the present. The statistics are from the Bureau of Justice.



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Between 1980 and 1990 California gained over six million people. That's more than the total population of all but 11 other states. But this is interesting and ominous -- Ed Hyman's latest chart shows California personal income (year-to-year comparison) dropping to a record low. I understand the state (even after last year's huge tax boost and spending cutbacks) is approaching deficits of a billion dollars a month. The Golden State, the bellwether growth state for years, is now heading into the wringer.

* *

Ah -- The Mystery of Inflation: There are a number of price areas that are affected by inflation/deflation. In the raw materials area, for example, there is currently little inflation and actually some deflation. We can see it in the weak performance of the CRB Commodities Futures Index. In the commercial real estate area, the picture is still deflationary. But the area that affects consumers most is the area of everyday necessities. Here it's a different story.

The government's widely-followed Consumer Price Index (CPI) tracks the average price change in 400 goods, but 60% of the index is housing and transportation. Eric Hanson of Fraser Management in Burlington, VT. has constructed his own

The Hanson Inflation Index

Item	Current Price	% increase since 4/90	% increase since 4/88
Fishing License	$18	80	80
Four hours' babysitting	$14	40	40
Burlington beach permit	$20	33	33
Airfare to Boston	$190	28	39
Basic cable TV	$19.95	25	60
Funeral (est.)	$4,650	20	45
Adult membership YMCA	$348	20	44
One-hour massage	$45	13	29
BMW tune-up (est.)	$180	9	44
Al's French Frys meal	$4	8	21
Bounced check	$16	7	33
Ben & Jerry's cone	$1.45	7	38
Oasis Diner Breakfast #1	$4.75	6	13
Uncontested divorce	$475	6	6
Shelburne dock space	$1,650	5	25
Movie	$6.25	4	25
Shoe repair	$30.25	3	3
Gallon of unleaded gasoline	$1.07	1	8
Colombian decaf coffee (one lb.)	$6.99	Unch.	8
Taxi: airport to Radisson	$8	Unch.	Unch.
Espresso at Leunig's	$1.75	Unch.	Unch.
Burlington parking ticket	$3	Unch.	Unch.
Burlington Free Press, daily	$.35	Unch.	Unch.
Median Increase		**15**	**25**
Consumer Price Index		**8**	**19**

Source: Eric Hanson research

"Hanson Inflation Index." His Index tells a different story than the CPI, and it is a story much closer to the situation that affects you and me. Here's a copy of his Index. Note that since April 1990 the Hanson Index is up 15%, almost double the CPI. Since April '88 the Hanson is up 25% as against 19% for the CPI. This is what I believe is the real rate of inflation that consumers have to live with, and I don't care what Mr: Greenspan or the government statistics tell us.

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Faye and I just made a quickie trip to my old home town of New York. The reason: my high school class reunion. And gee, I'll have to admit that the guys don't look nearly as good as they did back in high school (mmm, me included). Of my class of 104, 28 are now dead. They died of a variety of causes, but strangely, very few died in WWII. Me, I'm still alive. A strange old psychic (many years ago) promised me that I'd live into my 80s. I complained, "Won't I make it to 100?" She told me, "No, You have to be satisfied with 85 or so." But I'm an optimist, I still think I'll make 100 (by the way, there are 35,000 Americans now over 100; it's a real growth group).

Faye and I did a lot of walking in NY. We walked from mid-town Manhattan down to the Village, down Broadway, up Madison Avenue, and across to the fabulous Museum of Natural History. If you only visit one place in NYC, this museum would be my choice -- everything from Dinosaurs to a transplanted Egyptian tomb to a mineral and gem collection that's maybe the world's best.

New York may have more vagrants and garbage than any other city in the USA, but it also has more good restaurants. Our choice for the best is Le Cirque -- the food is THE best, and the waiters are actually friendly. They make a chocolate souffle that is incredibly good. Bill Cosby and family were chowing down two tables away from us, but Cosby didn't order the souffle (what does he know?).

We didn't see any shows in NY (sheepish confession, I like a good film as much as a good show), but we did have lunch with Marty Zweig and Jim Grant. After lunch Marty showed us through his new offices. Gad, I remember when Mr. Zweig just wrote a market letter. Now he has three floors in a big NY office building, manages $4 billion in funds and wades through dozens of employees. Marty can really put away the food, but he runs six miles every day (rain or shine), so he remains flat-stomached. Jim Grant doesn't run much -- worrying keeps him thin. Grant (*Grant's Interest Rate Observer*) is probably the best writer in the business. And like me, he wonders how long this nation can continue building up debt.

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Nobody writes about the socio/economic implications of the big picture with the insight and brilliance of my old friend, Bob Prechter (*Elliott Wave Theorist,* PO Box 1618, Gainesville, GA 30503). In a just-received special report, Prechter notes the irony in the fact that all other measures of US prosperity and psychology have turned down ahead of what Bob considers the final up-thrust of the great bull market. Who would have thought, he notes, that "the market would hold up or actually rise during a period when we witnessed a 56% collapse in the Nikkei Index, an average 50% drop in IBM and GM, a 60% drop in junk bond prices, a 45% crash in the D-J Transports, the biggest drop in real estate prices in 50 years, the deepest economic contraction since the Great Depression, an all-time low in Congressional approval by the public, and the lowest figure on consumer confidence since 1974!?"

Prechter ties all this in with what he considers the great topping-out of the markets and economies, a topping-out that began with the 1987 market crash. Prechter believes it is all leading to a massive "developing wave of global deflation, depression and debt retirement."

Prechter also believes all this ties in with the ominous cultural changes that we are now seeing such as a horror film, "Silence of the Lambs," sweeping the Academy Awards, the parade of hate and aggression in today's music, the exploding crime and murder rate, the fact that last year a suicide manual made the best-seller list, the global rise of hate-groups, skinheads and right-wing groups, and so on.

I'd have to agree with Bob Prechter. The violence today is the worst I've ever seen (barring WWII). Murder and mayhem saturate TV and films. The romantic ballads of my high school days have given way to violent rap songs and ear-shattering aggressive heavy metal sounds. Compared to today's "music," even the rock of the dope-filled Woodstock days sounds tame.

The culture, the riots, the deficits, the cowardliness and covertness of our politicians, the poverty, the widening division between rich and poor, the rising taxes, the agony of the cities, the overvaluation in the stock market, the greed and anger of today -- all of this seems to be leading to some sort of climax.

When will the climax come? My guess -- within a year. The early storm warnings are all about us. But the market is saying -- "Wait, not yet, not yet." (Remember the old adage, "The stock market always does what it's supposed to -- but never when.")

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Question: What ever happened to DowPow?
Answer: I killed it. It just didn't show me enough, and after following it for a few years I decided to give up on it.

Question: Russell, your PTI remains bullish, and the Averages refuse to break down. In view of that, why don't you recommend being fully invested or at least buying selected stocks?
Answer: Values, they aren't there. When yields are this low, history says that a year out or two years out you're going to be losing money. It bothers me when I lose money; it bothers me even more when my subscribers lose money. I've survived in this business since 1958 by giving fairly good advice. My advice now is to be damn careful. The market has never stomached yields below 3% for long.

GOLD: The big news for gold this month isn't in the charts -- it's this -- a major gold producer, Newmont Mining, thinks gold is at or near the bottom. Last week Newmont bought 375,000 ounces of gold in the forward market for $126 million. Newmont will use the gold to pay off a "gold loan" executed in 1988.

Some of the major producers believe that gold at 335 is around the bottom. Furthermore, up to now every time gold rallied the producers sold into the forward market, thus effectively shutting off any real gold rally. That kind of action, it appears, is ending.

Only two phenomena will drive gold higher: (1) collapsing paper currencies, or (2) a rising rate of inflation. The massive debt bubble built during the 1980s has been sagging, and this process is basically deflationary. The Fed has been doing everything it can (16 decreases in either the Fed Funds rate or the discount rate since 1990) to fight the forces of deflation. So far, the Fed's struggle to re-inflate has been just short of failure. But wait -- the latest figures show that the rate of inflation is starting to turn up again. If so, we will be seeing gold forming a bottom. Newmont Mining believes that and has bet $126 million on it .

LATE NOTES: The stock market has turned very erratic, as have many stocks (up 4 points one day, down 4 the next). I was taught that erratic markets are distribution markets, but maybe this one is just nervous and terrifically news oriented . . . Meanwhile, the June Dollar contract hovers just above the 89 support level and Germany contemplates boosting its bank rate. Everybody's wondering whether the Fed is going to "zuts" the money market with another little drop in the discount rate or the Fed Funds rate. My guess --they're going to sit tight for a while . . . Glaxo makes the most-active list almost every day. My brother-in-law, who makes promotional or educational films for Glaxo, tells me it's a great company and that they've got more great drugs in the hopper. There you are -- you heard it from my brother-in-law.

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